

**City of Eau Claire**

**City Council**

**Fiscal Policy Advisory Committee**

**Report**

**September 30, 2009**

**Fiscal Policy Advisory Committee**  
**Council Member Bob Von Haden, Chair**  
**Council Member David Duax**  
**Council Member Jackie Pavelski**

**Mike Huggins**  
**Rebecca Noland**  
**Cathy Marohl**

**City Manager**  
**Finance Director**  
**Executive Assistant**

# EAU CLAIRE CITY COUNCIL FISCAL POLICY ADVISORY COMMITTEE 2009 REPORT

“The unparalleled instability and uncertainty we have experienced in the City’s external operational environment over the past several years will continue for the foreseeable future. The fiscal and budgetary problems confronting the State of Wisconsin are systemic, and very unlikely to be resolved without a major restructuring of the state legislative budget process and intergovernmental framework.

What does this mean for City government? It means the gap between our annual operational revenues and operational costs will continue to grow. It means that we cannot wait nor depend upon the State for resolution of the fiscal crisis they have forced on us. It means that if the recurring funding gap is to be reduced, it is up to us at the local level to set the direction.”

-2008 City of Eau Claire Adopted Program of Services

## I. BACKGROUND

### Challenges to Fiscal Sustainability

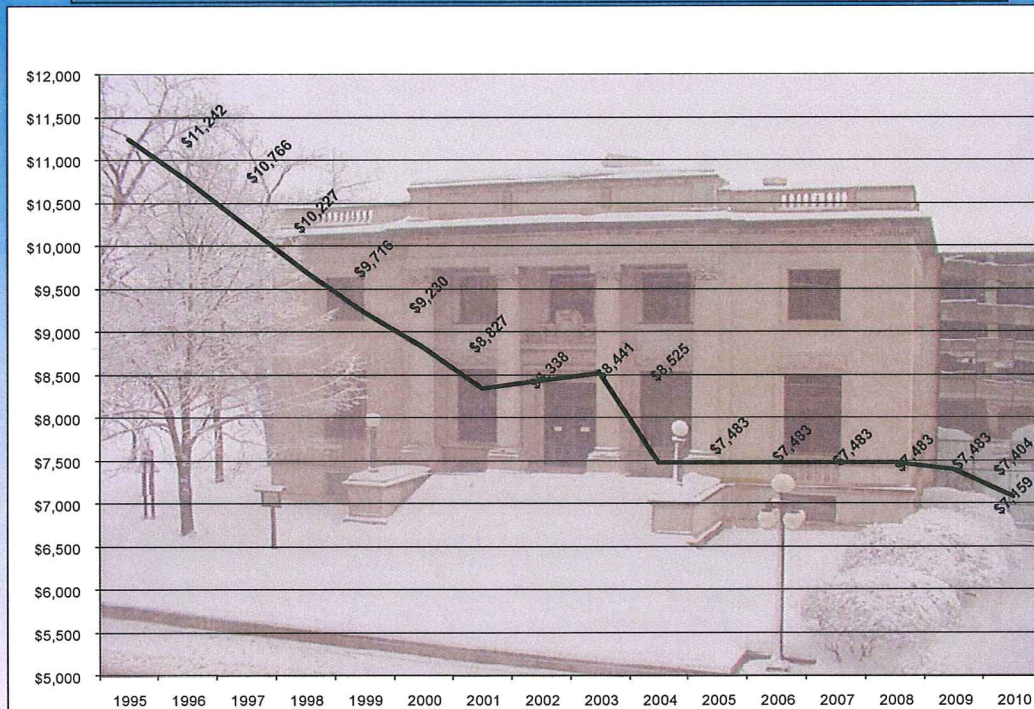
The balance between the available revenues and actual costs to maintain public services in the City of Eau Claire has been steadily eroding for over a decade. Since the 1990s, three converging fiscal trends have created an ongoing imbalance between the City of Eau Claire’s available revenues and its costs to maintain existing public services. First, beginning in 1996, the State of Wisconsin began a practice of annually reducing the amount of state shared revenues returned to the City of Eau Claire for support of local public services. The state shared revenue program itself dates from the early 20<sup>th</sup> century, when State Government made a commitment to return a portion of the state taxes collected locally to each municipality to support the local public services essential for the economic growth that generated the state tax revenues.

As shown in Figure 1, in 1996, the state shared revenue payment to the City of Eau Claire was \$11,242,000. By 2010, the state shared revenue payment will have fallen to \$7,154,000, reflecting a 36% reduction in annual payments, and a loss of over \$40,000,000 over the 15-year period.

Second, since 1999, the continuing rise in health-care industry costs have significantly increased the health care insurance costs incurred by the City. Since July 1997, the typical insurance plan has increased by 12 to 14% each year. In 2007, the City was confronted with a projected mid-year 56% increase in premium costs from its existing insurance provider. While the City Council’s subsequent decision to adopt an alternate health care plan through a local provider (Group Health Cooperative) with increased employee premium and co-pay costs, and an aggressive participant wellness program have resulted in single-digit cost increases for the past two contract years, health care costs continue to be a significant driver in the future cost increase for City services.



## State shared revenues down



**Combined State Revenue Loss from 1996 to 2010 = \$40,430,000**

**Figure 1**

Third, in 2005, the State began imposing a mandatory levy limit on local government taxing authority that restricted the ability of local governments to determine local tax effort based on local needs and values. Levy limits imposed by the State have ranged from 2 to 4% over the past 5 years. The tax levy limit for City services for 2010 will be 3%, which means that the total local property tax levy for operations can increase no more than \$740,000.

The dramatic collapse of the financial, manufacturing, and housing industries in late 2008 has further compounded the ongoing fiscal challenges facing local governments. A January 2009 ICMA white paper, *Navigating the Fiscal Crisis*, noted the current national economic crisis is “. . . deeper and different than anything we’ve seen in the past 50 years.” The slowdown in manufacturing, financial services industries, and new housing construction industries had a ripple effect on the stock market, businesses, and all levels of government. Although many observers are seeing signs of an economic recovery, the National League of Cities has suggested that there may be a lag of 18 to 24 months between a positive change in economic conditions and the impact on municipal revenue collections.



All of these factors have combined to create an ongoing structural imbalance between expenditures and available revenues for maintaining City services. Over the past five years, the annual mid-year estimates, prepared each June, for potential budget shortfalls for future years have averaged \$1.5 million:

- June 2006 estimate for 2007 budget year - \$1,000,000
- June 2007 estimate for 2008 budget year - \$1,200,000
- June 2008 estimate for 2009 budget year - \$2,400,000
- June 2009 estimate for 2010 budget year - \$1,700,000

Figure 2 illustrates the ongoing structural gap facing the City.

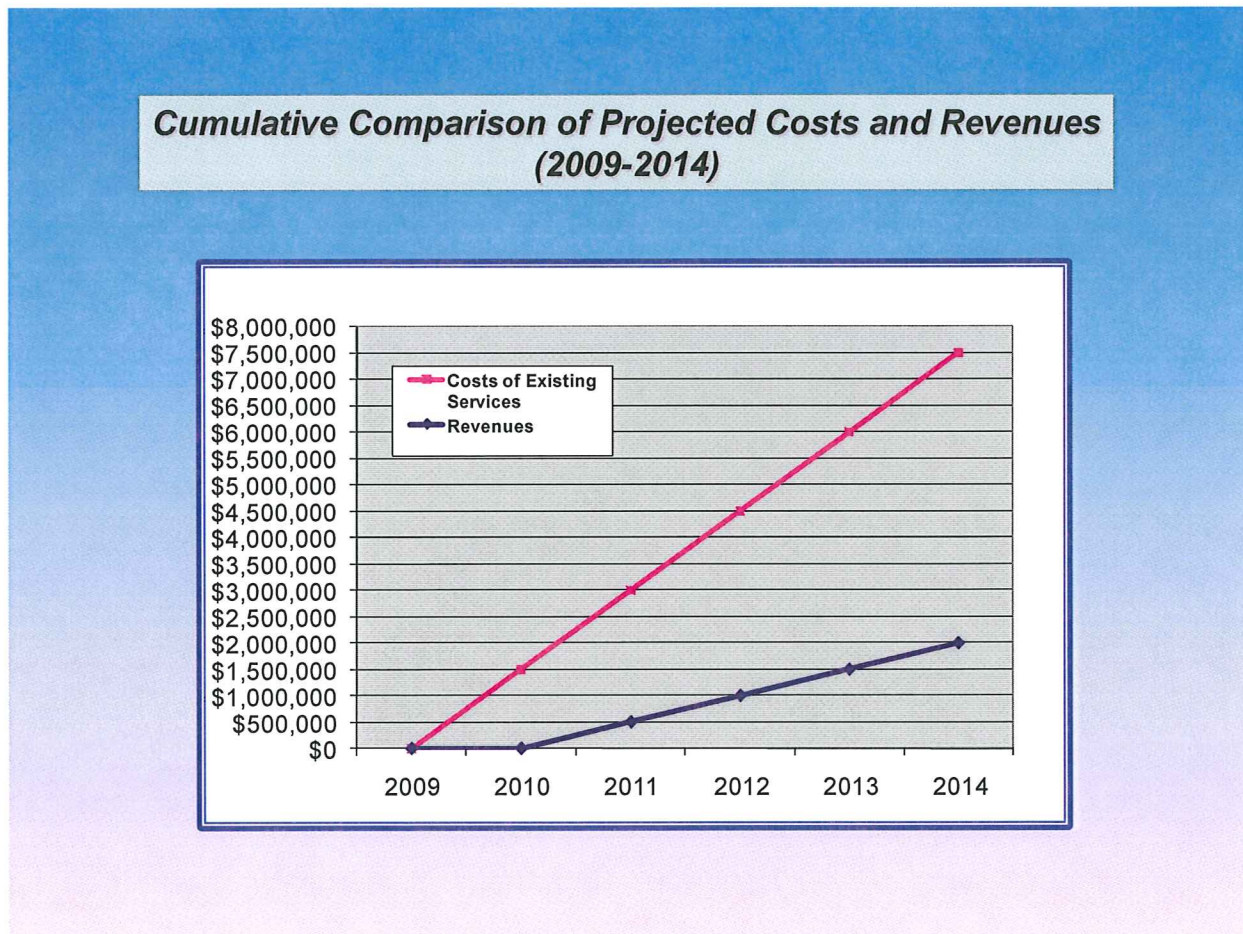


Figure 2

Recognizing the ongoing fiscal challenges facing City government, the City Council's Adopted 2009 Program of Services emphasized a policy theme of *"strategic budgeting for sustainable government"*- i.e., how does the City meet the community's current needs for public services without compromising the City's ability to provide public services in future years for future generations?

Fiscal Policy Advisory Committee

To expand its focus on long-term fiscal strategies and policies, in April 2009, the City Council established a Fiscal Policy Advisory Committee (FISPAC) to advise the Council on

- Strengthening the capacity of City government to adapt and navigate through the current fiscal crisis successfully without worsening the course of local economic recovery;
- Taking reasonable and prudent actions to address the current fiscal crisis facing local governments and the City of Eau Claire; and
- Continuing to provide for the public structures and systems essential for the Eau Claire community to flourish and be a desirable place where both people and businesses thrive.

More specifically, the City Council charged FISPAC with:

- a. Advising the City Council and making policy recommendations regarding matters of the City's long-term fiscal sustainability so as to ensure the City's continued ability to meet the needs of existing and future residents for essential public structures and services while balancing the City's revenues and expenditures;
- b. Facilitating an informed policy review process by the City Council of fiscal matters, while neither duplicating nor replacing the work of the City Council as a committee of the whole in reviewing and approving the Annual Program of Services and Capital Improvement Program; and
- c. Seeing to the continued provision of quality public services, necessary infrastructure investment, and financial integrity by the City of Eau Claire.

Council Members David Duax, Jackie Pavelski, and Bob Von Haden were appointed to the Committee, with Council Member Von Haden elected at the first meeting on April 29 to serve as Committee Chair.

Summary of Fiscal Policy Advisory Committee Activities

At its initial meeting, the Committee reviewed a preliminary estimate of the projected 2010 budget shortfall and the status of reductions in state aids and increased state mandates. The preliminary estimate shows the following General Fund outlook for 2010:

- |  |                           |
|--|---------------------------|
| • Maximum 3% levy limit increase                 | +\$740,000                |
| • Major revenue decreases                        | (\$375,000)               |
| • Reduction in state aids                        | (\$324,000)               |
| • Increased costs for existing services          |                           |
| o Wisconsin Retirement System Surcharge Increase | (\$230,000)               |
| o Wages, Health & all other costs                | (\$1,000,000-\$1,700,000) |

Depending upon final contract settlements with employee bargaining groups, the Committee noted that the funding gap for 2010 could be \$1.5 million or more when final budget calculations are completed.

The Committee also noted that a key challenge in achieving the City's long-term fiscal sustainability would be to find a new and sustainable balance of citizen expectations, service costs, and available revenue. Finally, the Committee noted that the core policy strategies available for balancing expenditures and revenues fell into four categories: (1) reducing expenditures by cutting services; (2) increasing revenues; (3) reducing costs through improved productivity; and (4) one-time use of fund balance.



The Committee met 13 times between April 29 and September 30. A summary of major discussion topics addressed at the meetings is provided below:

Meeting Date	Major Discussion Topics
<b>Meeting #1: April 29</b>	Election of Chair. Review of Council resolution, estimated 2010 budget projections, and adopted 2009 Budget Summary of city services. Discussion of fixed and discretionary costs. Identification of future meeting agenda topics and meeting times.
<b>Meeting #2: May 13</b>	Review of possible additional revenue sources and discussion of revenue proposals discussed in 2009, including vehicle registration fee, creation of new utilities, increases to master fee schedule, and park funding. Review of CDBG and HOME funding proposals. Discussion of holding public forums.
<b>Meeting #3: June 3</b>	Discussion of revised 2010 budget estimates and state action on Governor's budget. Review of expenditure restraint parameters, capital projects funding options, potential federal stimulus funding, and unfunded mandates. Review of community enhancement fund and outside organization allocations. Discussion of revenue-generating concepts, including sale of City-owned land, parking enforcement, naming rights, excessive use charges, health and library levy adjustments, infrastructure fees. Discussion of expanded opportunities for citizen information through the City web and for comment at each Monday evening Council meeting.
<b>Meeting #4: June 10</b>	Review of Monday public comment initiative. Discussion of potential new revenues, including vehicle registration and naming rights contracts for existing City assets. Discussion of fundraising efforts of outside organizations. Review of capital project funding allocations and related bonding strategies.
<b>Meeting #5: June 17</b>	Meeting with Visit Eau Claire representatives regarding room tax funding and allocations. Discussion of Visit Eau Claire operational changes and strategies, and potential for enhanced joint efforts with other community organizations.
<b>Meeting #6: June 24</b>	Discussion of state-mandated WRS surcharge of \$230,000 for 2010 and future years. Discussion of revised report of state shared revenue reduction of \$324,000. Discussion of public presentations regarding budget issues. Discussion of outside agency funding and allocation of special projects funding through Visit Eau Claire. Discussion of status of economic development funding. Discussion of DECI and options for alternate funding. Discussion of loss of PEG fees for community television as of January 1, 2011.
<b>Meeting #7: July 8</b>	Update on City 2010 budget estimate of potential \$1.7 million shortfall. Discussion of public comment efforts. Discussion of alternate revenues through Active Government private sector partnership program. Discussion of prioritizing major City services. Discussion of holding work session with full Council and scheduling public budget forums in August or September.
<b>Meeting #8: July 22</b>	Review of 2010 budget estimate and impact of potential wage/benefit settlements on shortfall. Discussion of August 6 Council work session. Discussion of new revenues, including vehicle registration fees, parking utility, student charges, lighting utilities, sale of City-owned property, and parks development funding. Review of Active Government sponsorship program options and costs. Review of revised draft of prioritization worksheet.
<b>Meeting #9: August 5</b>	Discussion of challenges in projecting revenues/costs. Discussion of public forums for August 24 and September 10 at CVTC and Northstar. Discussion of potential Public Spirit fund, municipal marketing, and PEG fees.
<b>Meeting #10: August 6</b>	Review of FISPAC discussions with full Council at Council work session. Discussion of current fiscal and budget policies listed in annual budget, potential additional revenues, and community enhancement fund allocations for outside organizations.
<b>Meeting #11: August 19</b>	Discussion of new revenues, funding of outside organizations, City auction process. Discussion of working with UWEC to evaluate revenue potential for local marketing/sponsoring program. Discussion of prioritizing worksheet. Discussion of preparing written report to Council.
<b>Meeting #12: September 4</b>	Discussion of potential for joint work between DECI and Visit Eau Claire. Discussion with Visit Eau Claire representatives of current funding allocations. Discussion of additional revenues including boat launch fee and July 4 Carson Park entrance fee. Discussion of increasing parking enforcement revenue and reducing annual energy costs. Discussion of Health Department costs for school nursing program, regional transit funding impacts, and importance of selling excess City-owned land. Discussion of contracting for fundraising for selected City projects. Review of preliminary draft FISPAC report to City Council.
<b>Meeting #13: September 30</b>	Review and approval of FISPAC report to City Council.

## II. FINDINGS

Based on its work over the past six months, FISPAC submits the following findings for consideration:

**a. The City's total annual budget can be grouped into four broad categories.**

The adopted 2009 budget included total expenditures of \$126,142,500 to provide for a wide range of City services. These services can be grouped into four broad categories:

- > **General Fund Operations:** \$54.1 million (43%) (Includes public safety, zoning, inspections, parks, recreation, streets, forestry, general government, etc.)
- > **Utility Operations:** \$13.7 million (11%) (Includes water, stormwater, and sanitary sewer systems)
- > **Other Government Programs:** \$32 million (25%) (Includes ice arena, pool, transit, parking, central equipment, health, library, cemetery, community enhancement, redevelopment, etc.)
- > **Capital Projects:** \$26.3 million (21%) (Includes utility construction, street replacement, major building improvements, fleet vehicle replacement, park improvements, etc.)

In 2009, property taxes levied by the City of Eau Claire generated \$26,300,700 in revenue for the General Fund, or approximately 49% of total General Fund expenditures.

The distribution of the City's tax levy to various City operations is illustrated in Figure 3.

**The City's tax levy is used to support the operations of the City Government. These services include police, fire, ambulance, street maintenance and park maintenance.**

**How Each Dollar of the City of Eau Claire's 2009 Tax Bill is Spent.**

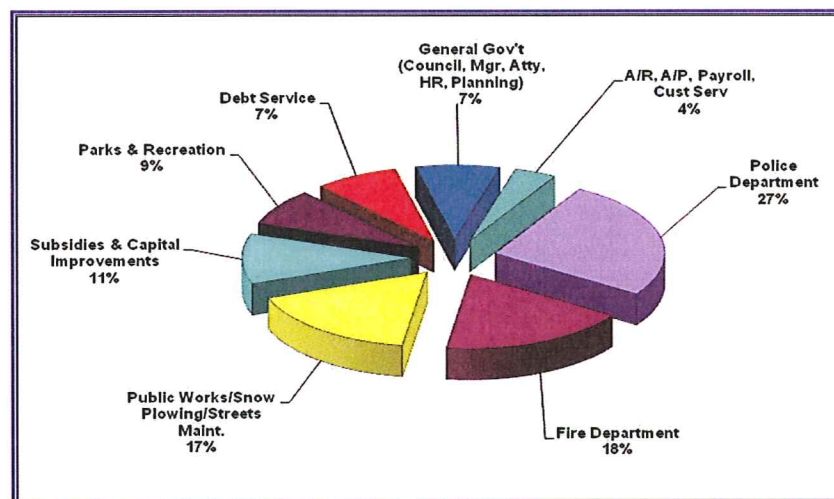


Figure 3



**b. The public structures provided by the City are vital to Eau Claire's quality of life and economic success.**

Fundamentally, City government = public structures. Public structures are the *physical*, *organizational*, and *social* systems that help define and connect our community, allow us to get things done, and help ensure the health and well-being of our community. *Physical* structures define and connect our community through parks, streets, sidewalks and pathways, recreation facilities, library, and public buildings. *Organizational* systems are what we use to do what needs to be done to maintain the community and a safe, viable, and healthy place to live and work. Core systems include public safety, street maintenance, emergency response, building code safety, legal and justice, public finance, and economic development. *Social* support systems help ensure the health and well-being of our community through recreational activity, public health, and affordable public housing.

Examples of City of Eau Claire public structures are illustrated in Figures 4 and 5.

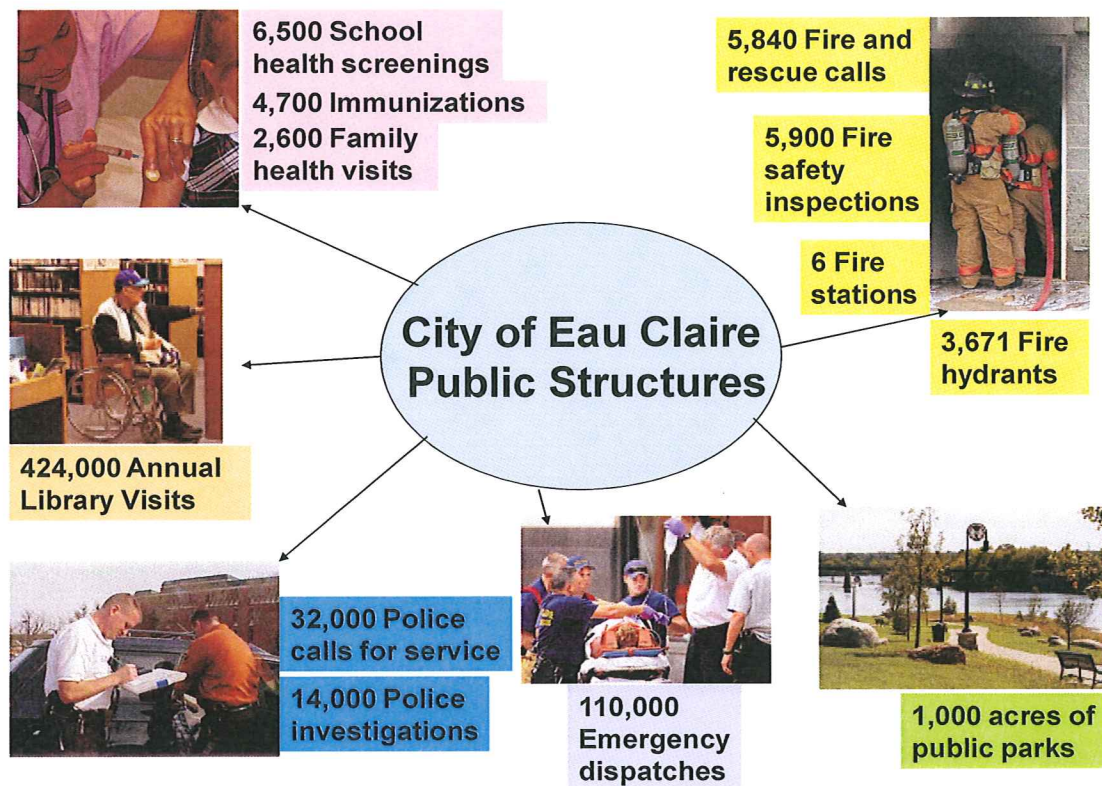


Figure 4



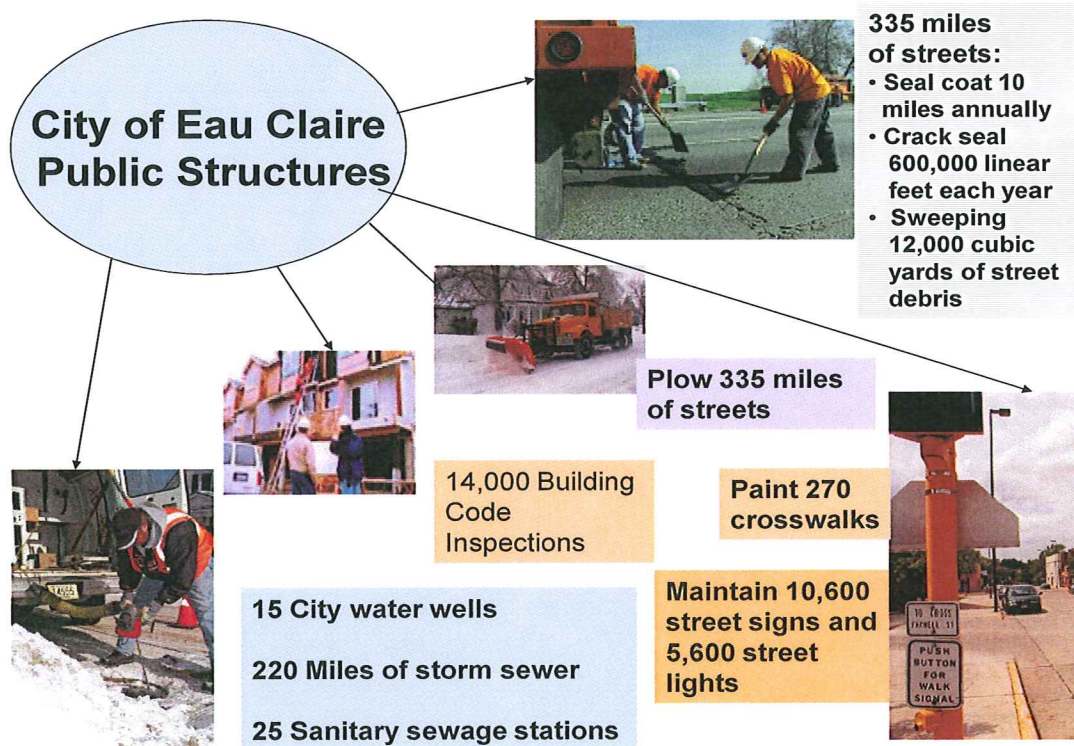


Figure 5

Over the past 30 years, the City's capacity to support public structures has not kept pace with the actual growth of the City. From 1980 to 2009, the City population grew by 27%, total street miles by 22%, sanitary sewer miles by 50%, and water main miles by 63%. During the same period, the City experienced a 36% loss in annual state shared revenue, and reduced community maintenance employees by 36%, public safety employees by 2%, and all other City employees by 19%.

c. **Fiscal conditions for most US cities have decreased significantly since 2007.**

The September "City Fiscal Conditions in 2009" report prepared by the National League of Cities (NLC) reported that only 12% of city finance officers surveyed reported that their cities were better able to meet their fiscal needs in 2009. This is down from 36% in 2008, and 70% in 2007. The NLC report also projected that the national real estate market will be slow to recover from the largest real estate decline in the past 40 years, that large state government budget shortfalls in 2010 and 2011 will be resolved in part through further reductions in local aid programs, and that overall city fiscal conditions will tend to lag behind national economic recovery.

**d. The City of Eau Claire continues to maintain a lower per capita municipal property tax levy.**

Of the 13 Wisconsin cities with populations over 50,000, Eau Claire has the 4<sup>th</sup> lowest tax levy, the 4<sup>th</sup> lowest equalized tax rate, and the 6<sup>th</sup> lowest levy per capita. Eau Claire continues to have the second lowest shared revenue payment per capita.

**e. The decline in state shared revenues has shifted a greater tax burden to local property taxpayers.**

As illustrated in Figure 6, the loss of state shared revenue support has shifted a greater tax burden to local property taxes for support of public services. In 1995, 48% of the revenue for general fund operations came from state aids, and 26% from local property tax. In 2009, this had almost reversed, with only 23% of the revenues coming from state aids, while local property tax provided 49%.

**f. The City adopts an annual budget that is balanced between expenditures and revenues.**

The City is required by Wisconsin law to adopt a balanced budget each year, with all expenditures matched with revenues. Unlike the State, the City cannot operate with a budget deficit.

**g. The City has implemented significant reductions in services and staffing.**

Each November, the City Council adopts a balanced budget for the following year. Each year that budget has been balanced in large part through additional reductions in public services. Since 2003, the City has eliminated 15.6 supervisory and technical positions and 27.25 labor and clerical positions. More recent reductions in public services have included:

- Less asphalt overlays and patching
- Reduced snow plowing
- Fewer bus routes
- Less support for neighborhood associations
- Less frequent restaurant inspections
- Reduced or static street construction investment
- Fewer books and programs at the library
- Reduced park maintenance
- Reduced playground programs and supervised sites
- No police response on gas skips, minor theft and property damage
- Reduced routine fire prevention inspections
- Deferred equipment and vehicle replacement
- Reduced public swimming pool hours



## *2009 General Fund Revenues*

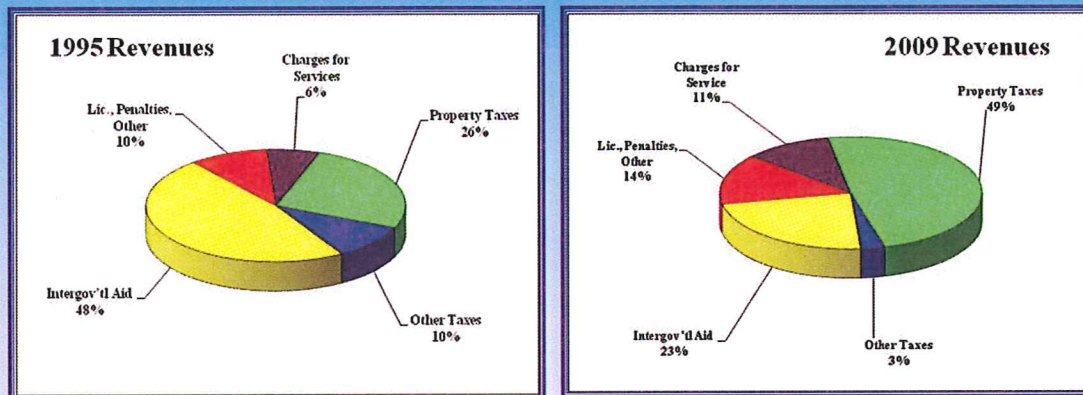


Figure 6

**h. The City has implemented a number of service innovations to reduce costs and improve productivity.**

- Implemented regional EMS and improved emergency response while increasing net City revenues
- Organized a users' consortium to improve Hobbs Ice Arena and eliminate general fund annual subsidy
- Revamped the employee health insurance program with reduced general fund costs, increased employee costs, improved employee health outcomes
- Implemented City sustainability program to reduce annual energy costs
- Expanded use of City website for information and communication
- Implemented organizational strategic planning to identify priorities and align services
- Established a Fiscal Policy Advisory Committee
- Implemented employee Baldrige process improvement teams
- Created an interdepartmental employee green team to reduce energy costs
- Consolidated/restructured vacant positions where operationally feasible
- Implemented online employment application process to improve efficiency
- Replaced hard copy reports with electronic copies

- Expanded civic engagement problem-solving efforts with community groups
- Implemented proactive employee wellness teams to reduce health care costs
- Worked with employee bargaining groups to negotiate two-year agreements with reduced wage/benefit costs

**i. The City incorporates an extensive list of written fiscal policies in the annual adopted budget document.**

The City's budget and financial management policies are included as part of the annual adopted budget (Pages J1 through J8 of the 2009 Adopted Program of Services). Current policies address the following topics:

- Operating budget
- Capital budget
- Revenue
- Reserve
- Investment
- Debt
- Special assessment
- Major developments
- Purchasing
- Pension funding and reporting
- Compensated absences
- Accounting, auditing, and financial reporting
- Special events insurance requirement
- Risk management

### **III. RECOMMENDATIONS**

An Alliance for Innovation 2009 Fiscal Crisis White Paper for Elected Officials suggests that periods of fiscal stress and the necessary retrenchment of public services can be times of innovation and creativity for a local government. The Alliance suggests that elected leaders can play a key role in promoting constructive change for their local government by considering the following actions:

- Where cuts need to be made, take action quickly.
- Focus on core mission, purpose, and highest priorities in order to differentiate essential services from others.
- Take a long-term view.
- Foster stewardship and cost containment.
- Support staff in trying new approaches and improving organizational design and processes.
- Commit to communicating with all stakeholders.



In moving forward to strengthen the City's long-term fiscal sustainability and promote the constructive and innovative change critical to Eau Claire's future, the Fiscal Policy Advisory Committee recommends that the City Council consider the following strategies:

**Operating Cost Reductions**

1. Defer selected capital project expenditures and bonding for 2010-2011.
2. Cut non-value added costs and improve productivity in City work processes and operations
3. Reduce use of community enhancement funding for outside community organizations, including two year phase-in of funding reductions.
4. Invest in capital improvements to reduce annual energy costs.
5. Reduce substantially the annual funding subsidy from the City Economic Development Fund for Downtown Eau Claire, Inc. through a two-year phase-in of reductions.
6. Work with Community Television to develop a strategic operations plan to offset the loss of PEG revenue at the end of 2010.
7. Explore expanded role of Visit Eau Claire in funding selected events for existing community organizations and in working with DECI to market community events and festivals.
8. Explore potential for reducing annual street light operating costs by converting to more energy- efficient fixtures and reducing total number of light pole locations.

**Revenue Enhancement**

9. Work with UWEC marketing programs to develop potential revenue through branding and marketing and third-party agreements to develop alternative nontax or fee revenue.
10. Move forward with the sale of excess City-owned property to generate one-time revenue and expand the City's property tax base.
11. Expand parking enforcement activities to generate sufficient revenue to sustain the public parking system as a revenue neutral operation.
12. Reconsider implementation of a vehicle registration fee tied to more defined uses, such as, offsetting reductions in snow plowing, street maintenance, and reducing debt for bonding for streets.
13. Consider implementing additional new revenues such as boat launch fees, public park special event parking fees, or similar fees related to discretionary use of public facilities or programs.
14. Explore the feasibility of a referendum in 2011-2013 to seek relief from the state levy limits.

**Citizen Engagement/Expectations**

15. Expand regular use of citizen surveys to measure citizen preferences and evaluations regarding City services.
16. Develop alternative communication strategies to ensure broadcast of public meetings beginning in January 2011.
17. Develop a ratings process to identify and prioritize major existing City programs and services.

17. Explore the use of video and social media venues to communicate ongoing fiscal challenges and issues.
18. Incorporate the concepts of public structures to communicate the impact of City services on community quality of life and economic growth.
19. Expand civic engagement opportunities and venues to build informed citizen dialogue about the City's public structures and fiscal issues.
20. Communicate regularly with existing neighborhood, business, and community associations regarding City fiscal issues and choices.

### Other

22. Freeze increases of building related fees/permit costs for 2010.
23. Continue to use fund balance selectively to offset appropriate one-time expenditures.

### Final Comment

An observation from the City's budget report adopted two years ago regarding the transformation in City services that is underway will continue to hold true for the foreseeable future:

**“Eau Claire City government is in the midst of a historic period of transition that will redefine our role within the broader community and how we deliver public services. Our challenge is to find a way to reaffirm with our citizens a clear, positive role for local government and to re-establish a new and sustainable balance of the services citizens expect, the services government can provide, and the services the community is willing to afford.**

**... The path of transformation will be difficult, marked by unknown detours and obstacles. At the end ... we will have a local government with a reinvigorated sense of purpose, a truer alignment of purpose with actions, and a way of doing business as a government that re-engages all of us—*citizens, public employees, and elected officials*—in productive and essential public work and governance.”**